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SUBJECT: INVENTORY OF VENEZUELA TRADE PROBLEMS

1. ONE OF THE KEY AREAS OF LATIN AMERICAN CONCERN HAS BEEN THAT OF US-LATIN AMERICAN TRADE ISSUES. THIS WAS HIGH-LIGHTED BY THE MEXICO CITY AND WASHINGTON FOREIGN MINISTERS' MEETINGS AND BY AMBASSADOR EBERLE'S TRADE CONSULTATION TRIP TO LATIN AMERICA. AS A FOLLOW-UP TO THE SECRETARY'S INITIATIVES IN THE TRADE FIELD, THE DEPARTMENT IS IDENTIFYING THE SIGNIFICANT COUNTRY-SPECIFIC TRADE PROBLEMS OF THE REGION.

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2. IN THIS CONNECTION, THE DEPARTMENT HAS PREPARED A PRE-

LIMINARY INVENTORY OF SIGNIFICANT TRADE ISSUES AFFECTING VENEZUELA (SEE PARA 3). THE ISSUES HAVE BEEN GROUPED UNDER FOUR GENERAL HEADINGS WHICH INCLUDE PROBLEMS THAT VENEZUELA HAS WITH THE US AS WELL AS PROBLEMS WE HAVE WITH THEM. THE EMBASSY IS REQUESTED TO REVIEW THE LISTING AND SUBMIT ANY ADDITIONS OR COMMENTS BY AUGUST 9.

3.A. PRINCIPAL VENEZUELAN TRADE PROBLEMS WITH THE US:

1. MARKET ACCESS FOR OIL: FOR YEARS, VENEZUELA PRESSED FOR A "WESTERN HEMISPHERE PREFERENCE" WHICH WOULD AFFORD ITS PETROLEUM PREFERENTIAL ACCESS TO THE US MARKET. IT SOUGHT AT LEAST PARITY OF TREATMENT WITH CANADIAN OIL. THE US DECLINED AND TODAY--IN THE STRONG SELLERS' MARKET--

VENEZUELA APPEARS TO HAVE LOST INTEREST IN SUCH ASSURED ACCESS. FUTURE DEVELOPMENTS COULD REVIVE THIS, HOWEVER.

2. MARKET ACCESS FOR NON-TRADITIONAL EXPORTS (NTE): ASPIRING TO DIVERSIFY ITS ECONOMY, VENEZUELA SEES ACCESS TO THE US MARKET AS A SINE QUA NON FOR ITS INFANT INDUSTRIES AND NTE'S.

3. SUGAR QUOTA: AS SOMETHING OF A SPECIAL CASE UNDER THE PRECEDING HEADING, VENEZUELA HAS ATTACHED GREAT VALUE TO ITS NEARLY 70,000-TON US SUGAR QUOTA. IT HAS FIERCELY RESISTED EFFORTS TO REDUCE OR SUSPEND ITS QUOTA--EVEN IN THE FACE OF A SITUATION IN WHICH IT HAS RECENTLY BEEN UNABLE TO FILL THAT QUOTA AND HAS BEEN FORCED TO IMPORT SUGAR.

4. ASSURED SUPPLY OF FOODSTUFFS AND RAW MATERIALS: AS WORLD SHORTAGES AND EXORBITANT PRICE INCREASES HAVE DEVELOPED IN INDUSTRIAL RAW MATERIALS (E.G. FERROUS SCRAP) AND ESSENTIAL FOODSTUFFS (E.G. WHEAT), VENEZUELA HAS PRESSED THE US FOR ASSURANCES OF SUPPLY. BOTH THE OFFICIAL AND THE BUSINESS SECTOR HAVE STATED THAT THE NATION'S PETROLEUM SHOULD BE USED AS A NEGOTIATING INSTRUMENT TO WIN FAIR OR PREFERENTIAL TREATMENT IN THESE REGARDS.

B. PRINCIPAL US TRADE PROBLEMS WITH VENEZUELA:

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1. OIL SUPPLY: VENEZUELA CONTINUES TO BE OUR SINGLE LARGEST FOREIGN SUPPLIER OF PETROLEUM AND PRODUCTS. CONTINUED SUPPLY AT OR ABOVE 1.7 MILLION BARRELS PER DAY IS AN ESSENTIAL OBJECTIVE OF THE US BUT IS TODAY THREATENED BY CONSERVATIONIST SENTIMENT IN VENEZUELA, BY A POSSIBLE FALL-OFF IN PRODUCTION WHICH MIGHT ACCOMPANY ACCELERATED REVERSION OF THE INDUSTRY, AND BY AN ECONOMIC NATIONALISM

WHICH COULD CHANGE EXISTING ECONOMIC AND TRADE PATTERNS.

2. OIL PRICES: VENEZUELA, IN CONCERT WITH OTHER OPEC MEMBERS, HAS SHARPLY ELEVATED OIL PRICES TO A POINT WHERE THEY IMPACT VERY ADVERSELY UPON FOREIGN ECONOMIES, INCLUDING THAT OF THE UNITED STATES.

3. IRON ORE SUPPLY: SINCE APRIL 29, THE VENEZUELAN GOVERNMENT HAS BEEN MOVING TOWARD NATIONALIZATION OF THE IMPORTANT IRON-ORE INDUSTRY WHICH LAST YEAR PRODUCED ABOUT 24 MILLION TONS OF ORE, A MAJORITY OF WHICH WAS EXPORTED TO THE UNITED STATES. IT IS AN AVOWED GOAL OF THE GOV TO DISCONTINUE EXPORTS OF ORE IN FAVOR OF MORE PROCESSED IRON AND STEEL PRODUCTS; HOPEFULLY THIS WILL NOT OCCUR UNTIL EXISTING US CUSTOMERS HAVE BEEN ABLE TO DEVELOP ALTERNATE SOURCES OF SUPPLY.

4. SHARE OF THE MARKET: THE UNITED STATES EXPORTS ABOUT ONE BILLION DOLLARS OF GOODS AND SERVICES PER YEAR TO VENEZUELA. THIS HAS REPRESENTED 45-48 PERCENT OF THE VENEZUELAN IMPORT MARKET. WITH OIL REVENUES UP FROM TWO BILLION DOLLARS TO AN ESTIMATED 8-10 BILLION DOLLARS PER YEAR, THE VENEZUELAN MARKET REPRESENTS A PRIME TARGET FOR EXPORT PROMOTION AND TRADE LIBERALIZATION AS MEANS FOR RECYCLING THESE IMMENSE SUMS INTO THE ECONOMIES OF THE WESTERN WORLD.

C. PRINCIPAL VENEZUELAN TRADE PROBLEMS WITH OTHER LATIN AMERICAN COUNTRIES:

1. OIL SUPPLY AND PRICE: LATIN AMERICAN NEIGHBORS ARE PRESSING VENEZUELA TO ASSIST IN MEETING THEIR OIL NEEDS AT CONCESSIONAL PRICES. VENEZUELA IS UNWILLING TO GIVE LIMITED OFFICIAL USE

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"BROTHERHOOD DISCOUNTS" AND OFFERS LONG-TERM CREDITS INSTEAD.

2. CONTRABAND: THERE IS A LONG-ESTABLISHED CONTRABAND TRADE ACROSS THE VENEZUELA-COLOMBIA BORDER AND BETWEEN VENEZUELA AND THE NETHERLANDS ANTILLES.

3. ANDEAN PACT: VENEZUELA IS IN THE PROCESS OF ADJUSTING TO THE TIMING AND ENFORCEMENT ASPECTS OF ANDEAN PACT INTEGRATION.

4. CANADIAN MARKET FOR OIL: AFTER THE US, CANADA IS VENEZUELA'S MOST IMPORTANT EXPORT MARKET FOR OIL.

D. PRINCIPAL VENEZUELAN TRADE PROBLEMS WITH NON-

HEMISPHERIC COUNTRIES:

1. CARTEL MANAGEMENT WITH OPEC: VENEZUELA IS A FOUNDING MEMBER AND ACTIVE SUPPORTER OF OPEC. IT HAS LONG ADVANCED THE IDEA OF PRODUCTION CONTROLS FOR PRICE MAINTENANCE PURPOSES. COOPERATIVE WARINESS CHARACTERIZES ITS DEALING WITH OTHER OPEC MEMBERS.

2. TRADE IMBALANCE: VENEZUELA CUSTOMARILY RUNS A HEAVILY UNFAVORABLE BALANCE OF TRADE WITH JAPAN AND SEEKS WAYS AND MEANS OF REDRESSING THIS. KISSINGER

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